

## Message Text

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ACTION DLOS-04

INFO OCT-01 EUR-12 IO-13 ISO-00 SSO-00 NSCE-00 USIE-00

INRE-00 FEA-01 ACDA-07 AGR-05 AID-05 CEA-01 CEQ-01

CG-00 CIAE-00 CIEP-01 COME-00 DODE-00 DOTE-00 EB-07

EPA-01 ERDA-05 FMC-01 TRSE-00 H-02 INR-07 INT-05

JUSE-00 L-03 NSAE-00 NSC-05 NSF-01 OES-06 OMB-01

PA-01 PM-04 PRS-01 SP-02 SS-15 SAL-01 /119 W

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FM USMISSION USUN NEW YORK

TO SECSTATE WASHDC IMMEDIATE 7366

INFO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L USUN 1991

FROM LOSDEL

E.O. 11652: GDS

TAGS: PLOS

SUBJECT: LOS: US-CANADIAN BILATERAL ON ARTICLE 9

1. AT THE REQUEST OF CANADA, US REPS LEARSON, MAW, MINTER AND RATINER MET WITH CANADIAN REPS BEESLEY AND CROSBY TO DISCUSS POTENTIAL IMPACT OF ARTICLE 9 ON LAND-BASED PRODUCERS OF NICKEL AND PRODUCTION LIMITATION GEARED TO THE GROWTH SEGMENT OF THE NICKEL MARKET.

2. CANADIANS EXTREMELY UPSET THAT LIMITATION IS ESTABLISHED AT 6 PERCENT GROWTH LEVEL IN THE NICKEL MARKET. ALTHOUGH CLAIMING THIS WAS NOT THEIR OBJECTIVE, EFFECT OF CANADIAN PROPOSAL WOULD BE TO ESTABLISH LIMITATION AT A LOWER PERCENTAGE, POSSIBLY 3 PERCENT, AND THEREBY IMPOSE AN EFFECTIVE PRODUCTION LIMITATION.

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3. CANADIANS ALSO BELIEVE THAT ARTICLE 9 IN SOME WAY IS

PREJUDICIAL IN FAVOR OF SEABED MINING AS AGAINST LAND-BASED MINING (AND BELIEVE SEABED PRODUCTION WILL BE ABLE TO FILL THE GROWTH SEGMENT IN THE NICKEL MARKET). CANADIANS SEEK A FORMULA FOR ARTICLE 9 WHICH RESERVE ONE-HALF THE GROWTH SEGMENT OF THE NICKEL MARKET FOR LAND-BASED PRODUCTION.

4. CANADIANS PROVIDED PAPERS SETTING FORTH THEIR POSITION. BEGIN TEXT:

1.1.(A) OVER THE INITIAL FIVE YEARS OF COMMERCIAL PRODUCTION FROM THE AREA, ALLOW THE PRODUCTION OF NICKEL IN THE AREA TO A TOTAL AMOUNT EQUAL TO THE ACTUAL INCREASE IN WORLD DEMAND DURING THE FIVE-YEAR PERIOD 1980-1984, OR DURING THE FIVE-YEAR PERIOD IMMEDIATELY PRIOR TO COMMENCEMENT OF COMMERCIAL PRODUCTION, OR DURING ANY CONSECUTIVE FIVE-YEAR PERIOD BETWEEN 1976 AND 1984.

1.(B) THEREAFTER, THE AUTHORITY WOULD ALLOW COMMERCIAL PRODUCTION OF NICKEL IN THE AREA TO A TOTAL AMOUNT EQUAL TO ONE-HALF OF A PROJECTED INCREASE IN WORLD DEMAND CALCULATED AS THE AVERAGE OF THE ACTUAL ANNUAL RATE OF INCREASE IN WORLD DEMAND DURING THE PRECEDING FIVE-YEAR PERIOD.

2. THE PROVISION OF (A) ABOVE WOULD ENSURE A SUFFICIENT PRODUCTION TARGET (PROBABLY IN THE ORDER OF 200,000 TO 300,000 TONS OF NICKEL PER YEAR) FOR THE AREA.

3. THEREAFTER PRODUCTION OF NICKEL IN THE AREA WOULD SHARE THE INCREASE IN WORLD DEMAND WITH LAND-BASED OPERATIONS. THIS WOULD TEND TO ENCOURAGE PRICES OF NICKEL TO REMAIN STABLE AT LEVELS THAT WOULD NOT DISCOURAGE NICKEL PRODUCTION FROM DEPOSITS ON LAND WHILE AVAILABILITY OF NICKEL FROM THE AREA WOULD TEND TO PREVENT EXCESSIVE PRICE INCREASES BASED ON SCARCITY ONLY.

4. APPLICATION OF THE FOREGOING WOULD BE LIMITED  
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IN TIME, POSSIBLY 20 TO 25 YEARS, SO AS TO ALLOW THE INCEPTION AND PHASING-IN OF PRODUCTION IN THE AREA (ALTHOUGH WITH SOME DISRUPTION OF LAND-BASED OPERATIONS). END TEXT (GRAPH POUCHED)

5. US AND CANADIAN REPS AGREED THAT THERE BE FURTHER WORK AT THE TECHNICAL LEVEL. IT WAS QUITE CLEAR THE CANADIANS ARE STRONGLY AGAINST PRESENT ARTICLE 9 FORMULA.

6. CANADIAN REPS HAVE SINCE ACTIVELY LOBBIED WITH LDC'S  
AGAINST ARTICLE 9 FORMULA. AS PART OF CAMPAIGN, CANADIANS  
ARE CIRCULATING DETAILED DOCUMENT REGARDING CANADIAN  
NICKEL PRODUCTION.  
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